

## Space Systems Loral aims for dominance over market

Through its own increasing productivity and growing business links, as well as the changing circumstances of traditional rivals, Space Systems / Loral has begun 2008 in a strong fashion from which it can attempt to assert a position as the leader in the satellite manufacturing industry.

SatelliteFinance reporter Ronan Murphy spoke to SS Loral CEO Pat DeWitt about the company's future and the current state of the market.

**Ronan Murphy: What is your current production capacity per year? Do you intend to increase that capacity and how would you go about doing so?**

**Pat DeWitt:** We're sitting at about nine spacecraft. This year we'll be producing eight. The deal we have just signed with Northrop Grumman will allow us to increase our capacity if necessary through the use of their facilities at Redondo beach, which could bring us up to 12 spacecraft in a year if necessary. These three extra satellites would be part of our core business and would not have to be governmental or specifically built for Northrop Grumman in any way. We've been working on this deal for the last six to nine months and the relationship is all about our combined spacecraft knowledge.

**RM: Do you have any ambition to expand Space System Loral beyond its primary function of manufacturing? Of course, the wider Loral Telesat group has a very diverse number of businesses, but does SS Loral specifically have any plans to diversify?**

**PdW:** We don't want to stray too far away from our core business. We may expand the range of our end to end solutions, but that is something we are already working towards.

**RM: How many contracts does SS Loral expect to win this year, and how many of these are you anticipating to be turnkey contracts?**

**PdW:** I think there will be between 20 and 25 contracts on the market this year and I think that we're going to get the dominant share in that market primarily because a lot of the customers are existing customers of Space Systems Loral. Let's say we get the contracts to build six to nine

spacecraft this year, I think a third of those would be full turnkey contracts.

**RM: You say that you will get the dominant market share, and it is certainly the case that SS Loral has increasingly grown in importance, especially with the apparent withdrawal of Lockheed and Boeing from the commercial sector. Do you think that has been a major factor in Loral's rise?**

**PdW:** It's been a combination of that and our capability of being creative with our technological and business solutions, and I think that has allowed us to become a more dominant player on the market. Boeing and Lockheed as you said are now focusing more on the government side of the business, and that has certainly benefited us.

**RM: While Boeing and Lockheed have withdrawn, the last 18 months has seen the rise of Orbital as a significant player in the market. Do you think that the market is set to continue evolving at such a pace in the near future?**

**DW:** I don't think I'll see much in the way of a dramatic change in the marketplace. There's always been a need for smaller spacecraft and that's something of a niche for Orbital. I don't see it being the dominant investment market. The market has an increasing appetite for more powerful spacecraft with more capabilities and that is something we pride ourselves on, the building of the largest, most powerful spacecraft.

**RM: Would you have any interest in developing a strong small satellite unit, or possibly acquiring a company in that area such as Surrey Satellite, which is currently up for sale? Can you see potential in that particular market?**

**PdW:** Not necessarily. We have the capability to build small spacecraft. It's not that we don't view it as our niche market – today we are actively pursuing the Iridium project, which is small spacecraft and we built the Globalstar spacecraft – so it is something we can address, but we'd be looking at doing so more in the context of a large production line than a one off spacecraft.

**RM: We have seen satellite manufacturers in Asia, particularly in China and India, manufacture spacecraft for their own national inter-**

**ests. Do you see these companies or organizations expanding into the international market at all?**

PdW: I think that that's a possibility. I think that we have seen China sell satellites outside their domestic market and it's likely that will continue. I think the same situation is occurring in India and we've seen IAI in Israel as well.

**RM: Do you think ITAR regulations will be eased for a wider range of nations in the coming year?**

PdW: I think that is a possibility, but that it will be a slow process involving governments and other parties. I think that what we'll find is that the process today is a lot more efficient from an ITAR perspective than it was three years ago, five years ago.

Our customers are less concerned about it than they once were. Customers such as New Skies and AsiaSat have come to appreciate that it's not such an exceptional process to get around any more.

**RM: Can you tell us more about the new generation of Ka band satellites, along the lines of the one that SS Loral has been contracted to manufacture for ViaSat? To what degree is there an increasing demand for Ka band satellites and what new challenges does this pose for the manufacturers?**

PdW: We've always believed in the viability of broadband satellites in markets around the world. We were the first satellite manufacturer to build a broadband satellite, Wild Blue, followed by IPSTAR, and we're seeing the demand increase. HNS is in the market for another broadband satellite, ViaSat is another, and we think the model is strong for the entire world because there are areas which have much worse infrastructure than the United States and Europe and would benefit from this kind of coverage.

Broadband satellites, with the spot beam structure and the complexity are more challenging spacecraft but it's something we've been working on for a number of years and we think we have the ability to meet any of our customers' expectations for this kind of satellite.

When it comes down to it you need to provide a lot of capacity for a very large amount of money, so if customers are going to generate revenue they need to invest in the best facilities.

**RM: Can you tell us about Loral's involvement in the mobile hybrid market? With the recent Ondas, Sirius, XM and S2M contracts, you appear to be the dominant player in that particular sector. What are your views on the long-term prospects for these businesses?**

PdW: We think the mobile market is one of the growth areas that we see around the world. We are very favourable towards start up businesses in general and we actively support new companies and engage in both technology and business application advice. We've been doing this for a long time and we started with the first mobile broadcast satellites such as the likes of DAB Sat in Japan and now CMB Star in China.

**RM: It is my understanding that the new CMB satellite will not be ready on time, and there are worries about the next ICO satellite as well. Would it be fair to say that SS Loral has bid too aggressively for the contracts to manufacture such complex high technology satellites?**

PdW: No, I don't think CMB Star is too complex, it is based on proven technology. We've built that spacecraft for MB Sat, it's just a bigger version. Bigger spacecraft take more time.

**RM: At the Satellite 2008 Launch Pad conference panel Orbital talked about how they were planning to design their satellites so that two could go up on an ILS Proton rocket. Obviously Loral spacecraft are too large for that, but what steps is the company taking to maximize its launch efficiency and to ensure that more Loral satellites can be launched over a 12-month period?**

PdW: That's a very important aspect of our development process; to make sure our satellites are compatible with a variety of launch vehicles we have spent a lot of time and effort to optimize our satellites for Land Launch. If we work with Arianespace then we optimize our satellites for their rockets. Proton and Sea Launch are pretty standard commercial launchers for us, but if there's something special or unique required then we will customize our satellites to operate more efficiently.

**RM: What are the effects of the Loral-Telesat merger on Space Systems Loral at this time and for the foreseeable future?**

PdW: It has had no effect. Telesat remains a mostly separate company. Our involvement with

them is limited to competing for Telesat contracts. It really has not changed our attitude towards them. They are a very important customer, but it's a separate company.

**RM: So just to clarify for good, Telesat is under no obligation to select Loral as its manufacturer for satellite contracts?**

PdW: Telesat will run a competition and if the people who run their affairs believe we provide the best value then we will get their business.

**RM: Is SS Loral is looking at making any acquisitions or launching any major financial facilities in the near future? What areas are most likely for that kind of activity?**

PdW: Not at this time. SS Loral is focused on being the dominant force in the manufacturing market and we are focused primarily on achieving this through commercial contracts and some government contracts.

**RM: When you talk about government contracts, are you referring exclusively to US government deals?**

PdW: Yes. We've had contracts around the world for government applications in the past, including a satellite in Japan and also with Optus in Australia to build a military satellite for the Australian government. However, at the moment any government contracts we pursue would be restricted to certain US projects.

**RM: What is the current fiscal status of SS Loral?**

PdW: We have no debt and we'd like to keep it that way. We are a profit-orientated company and our profit margins have always been good. Our EBITDA level is about US\$50-60m a year and growing. I can't speculate on our targets for future figures, but we think that we are in a very good position with our customer base and growth opportunities to continue to improve.

**RM: Are there any vendor financing agreements that SS Loral currently has in place and does it anticipate establishing any more over the next eighteen months?**

PdW: At present we don't have any vendor financing understandings. Historically, we are supportive of start-up companies and we do take our vendor financing very seriously. We did that for Sirius Radio and XM Radio among others. We

are supportive of that, but it's taken on a case by case basis, and if the customer asks for it then we will consider it.

**RM: How is the current state of the financial markets influencing SS Loral's fiscal outlook?**

PdW: I think it's put more of a burden on the start-up companies, who have the most pressing financial motive to raise money. It takes them longer to put together the package to raise the funds necessary to buy a spacecraft. We are aware of that, and we realize that it takes a lot more involvement on the market side with the customer in order to support them while they raise the necessary capital.

Ondas is an example of a company that has a business plan. It has all the ingredients that we see as workable for having a successful business. Of course, at some point they need to obtain the spectrum they need, because without the spectrum they have no business, but they are the kind of start up that SS Loral has traditionally worked with.

**RM: Is there anything else you think that SatelliteFinance readers need to know about how SS Loral will be moving forward?**

PdW: I think that the company is focused on the commercial business and on providing a quality business. We're focused on expanding our customer base, as we have just recently with the signing of a deal to manufacture SES New Skies' new satellite and solidifying our existing base. We're still going to be there for start up companies and we'll be looking at new applications and new markets.